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UNCLAS SECTION 01 OF 02 MELBOURNE 000088

SENSITIVE

SIPDIS

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SUBJECT: U.S. DAIRY SUBSIDIES HURTING VICTORIAN FARMERS?

Summary

11. (SBU) The Managing Director of Australia's largest dairy producer claims that U.S. subsidies are driving down Australian dairy prices. In addition to managing the effects of a 12-year drought, Victorian dairy farmers are also worried that Australia's proposed emissions trading scheme will significantly disadvantage dairy production. End Summary.

Impact of U.S. Subsidies

12. (SBU) Stephen O'Rourke, Managing Director of Australia's largest dairy producer, Murray Goulburn, told Consul General on July 22 that the U.S. Dairy Export Incentive Program (DEIP) has pushed Australian dairy prices to "unsustainably low levels." O'Rourke went on to say that these low prices will force the Australian dairy market to contract. He does not believe that using subsidies to target certain geographic areas will be effective given the small size of the global dairy export market; only 6 percent of global milk production is exported. For example, even if subsidized U.S. milk is only directed to key European markets, European producers will eventually shift exports to markets in which Australian producers compete either directly or indirectly.

13. (SBU) On July 28, embassy FAS Officer met with Dairy Australia (DA), which is the leading industry group for the country. When asked what type of analysis had been carried out on the DEIP's impact on Australia's dairy market, DA representatives indicated that no substantial research had been conducted. Dairy Australia went on to say that Murray Goulburn's assessment of DEIP's impact is therefore anecdotal and should be taken in that context. Conversations with Dairy Australia were amiable, and DA representatives indicated that they remain in close contact with their U.S. counterparts.

Worried about Emissions Trading Scheme

14. (SBU) Turning to Australia's Carbon Pollution Reduction Scheme (CPRS), O'Rourke said that it will be an "absolute killer" for the Australian dairy industry. (Note: Livestock farmers are responsible for approximately 12 percent of Australia's total greenhouse gas emissions. End note.) The GOA's position is that agriculture, including dairy, will be phased into the CPRS starting no earlier than 2015 after developing ways to measure and assess greenhouse gas emissions from agriculture. Unlike other carbon intensive industries in Australia, the dairy industry had not been allocated specific permits. O'Rourke attributed this to a mediocre

relationship with the federal government. Given that the Murray Goulburn cooperative alone includes approximately 2,500 farmers and is increasingly moving to higher value-added products such as protein powders and infant formula, O'Rourke was puzzled by the GOA's reluctance to support the dairy industry as a supplement to Australian commodities exports. He did note, however, that Murray Goulburn's relations are better with the Victoria state government.

Drought

15. (SBU) Victoria's ongoing drought has hit the northern part of the state particularly hard; O'Rourke noted that dairy production is shifting to Western Victoria as a result. Tough weather has also led to a consolidation of farms, reducing Murray Goulburn's number of farmers from 3,400 to 2,500. (Note: Murray Goulburn is Australia's last remaining farming cooperative and has an annual turnover of approximately A\$2.7/US\$2.2 billion. The state of Victoria produces nearly 65 percent of all Australian dairy. End note.)

Comment

16. (SBU) While the initial uproar over the DEIP has faded significantly from the public sphere, Victorian farmers are now grappling with significantly lower prices for their products and a tightening supply due to the impact of an ongoing drought. Murray Goulburn is confident that it will weather these tough conditions due to its size and strong cash reserves. Smaller, independent farmers in Victoria, however, will likely be facing very tough times

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ahead.

THURSTON